## Financial Results and Business Review

During the year under review, the Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK$63.4 million, as compared to a net profit from ordinary activities attributable to shareholders of approximately HK$7.6 million for the corresponding previous year. Turnover was approximately HK$256.5 million, representing a decrease of approximately 6.9% as compared to the corresponding previous year. Basic loss per share was HK6.63 cents, as compared to basic earnings per share of HK1.53 cents for the corresponding previous year.

The Group's business has been difficult during the year because the global economy still remained stagnant and volatile which was reinforced by worldwide political conflicts and instablility such as U.S.911 event, unfavourable stock markets and economic crisis in some South America countries. In addition, intense competition and severe price pressure in the electronics industry continued to affect the Group's performance adversely.

The selling prices of the Group's products were generally lowered to maintain the market share. Besides, many customers have shortened their order time during the year. In order to maintain a good relationship with these customers, the Group was committed to delivering customers' orders on time, even at the short term expense of higher manufacturing and delivery costs. As a result, the gross profit margin of the Group was eroded. Owing to the above and the increased marketing effort, the selling expenses have increased during the year under review.

Due to the uncertain economic climate, the management has adopted a prudent approach in assessing the recoverable amounts of assets, resulting in provisions against inventories of approximately HK$3.8 million, receivables of approximately HK$5.1 million and impairment of goodwill for the acquisition of associates in prior years of approximately HK$12.5 million.

With an aim to improve the overall profitability, the Group has been implementing cost-cutting measures, such as reducing headcounts and ceasing to manufacture non-profit making products, etc. Moreover, the finance costs are expected to drop following the reduced indebtedness. We will also put effort on improving production logistics and workers' efficiency, and developing new products which may enhance the Group's gross profit margin.

### Business Outlook

Apart from re-engineering the core business, the management is actively looking for good diversification opportunities. As advised the shareholders previously, the Group had an intention to expand its business in the satellite telecommunication field and was in discussion with certain potential partners who had expertise in this field. The management considers that these negotiations are in satisfactory progress. Other than that, the management is appraising some investment opportunities in other fields. So far, the Group has not yet come up with any agreement from these negotiations.

### Liquidity and Financial Resources

During the year under review, the Group financed its operations mainly with internally generated cash flows, credit facilities granted by its bankers and funds from capital raising activities. One of the management's major tasks is to reduce borrowing level so as to maintain a healthy financial position and reduce finance costs for the Group. We successfully achieved the goal.

A total of four placements of new shares were made during the year with total net cash proceeds of approximately HK$98 million generated for the Group. Also, the subscription of new shares by certain employees pursuant to their exercise of share options granted under the Company's share option scheme during the year has generated net cash proceeds of approximately HK$15 million for the Group. These proceeds have been fully utilised to settle part of the Group's bank borrowings and to finance the Group's working capital. Details of the Company's capital raising activities are set out in note 27 to the financial statements.

As at 31 March 2002, the Group had total cash and bank balances of approximately HK$35.3 million (2001: HK$17.0 million). The Group's indebtedness, including trust receipt loans, bank overdrafts and loans, mortgage loans and finance lease payables, has decreased from approximately HK$82.3 million as at 31 March 2001 to HK$25.9 million as at 31 March 2002. Out of the total indebtedness of approximately HK$25.9 million, approximately HK$11.8 million is repayable within one year. The gearing ratio, calculated as a percentage of total debts to equity, has decreased from approximately 63.5% as at 31 March 2001 to approximately 29.2% as at 31 March 2002.

It is the management's intention to continue to take appropriate measures to reduce the gearing of the Group. This includes, but not limited to, the Directors' proposal for an open offer of new shares, details of which are set out in the Company's announcement dated 17 June 2002, the Company's circular dated 29 June 2002 and the Company's prospectus dated 23 July 2002.

The management considers the Group's financial position as healthy and believes that the Group has adequate financial resources to meet its cash flow requirements.

**Exposure on Foreign Exchange Fluctuations**

The Group's trading activities were principally denominated in Hong Kong dollars, United States dollars and China Renminbi. The management considers the fluctuations among these currencies as minimal and should not expose the Group to excessive currency fluctuation risk.

**Pledge of Assets**

As at 31 March 2002, the Group's credit facilities were secured by the following:

(i) pledge of the Group's time deposits of approximately HK$1.0 million (2001: HK$9.1 million);
(ii) legal charges on the Group's leasehold land and buildings situated in Hong Kong with an aggregate net book value of approximately HK$15.3 million (2001: HK$15.6 million);
(iii) legal charges on certain properties owned by two (2001: four) related parties; and
(iv) unlimited continuing guarantees executed jointly and severally by Mr. Tong Yiu Lun and Ms. Wu Pik Ying, directors of the Company.

**Contingent Liabilities**

As at 31 March 2002, the Group had bills discounted with recourse of approximately HK$4.0 million (2001: HK$8.0 million).

**Employees and Remuneration Policies**

As at 31 March 2002, the Group had approximately 1,100 full-time employees. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

The Company adapted a share option scheme on 22 September 1999 (the "Existing Share Option Scheme"), under which the Directors of the Company are authorised to invite any full-time employees of the Group to take up options to subscribe for shares in the Company. During the year, the Company granted share options to certain employees to entitle them to subscribe for a total of 69,225,000 shares in the Company at a price of HK$0.222 per share. All of these share options have been exercised during the year.

On 23 August 2001, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, which has come into effect on 1 September 2001. In compliance with such amendments, the Directors proposed to adopt a new share option scheme and terminate the Existing Share Option Scheme at the forthcoming annual general meeting of the Company to be held on 6 September 2002. A circular setting out the relevant details and the principal terms of the new share option scheme will be sent to the shareholders in due course.

**Use of Proceeds from Initial Public Offer (the "IPO")**

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 11 October 1999, after deduction of related issuance expenses, amounted to approximately HK$64 million. The use of proceeds from the IPO generally reflects the expectations as stated in the Company's prospectus dated 28 September 1999 (the "IPO Prospectus") except that an amount of approximately HK$10 million, which was originally intended and stated in the IPO Prospectus as to be applied for the acquisition of a new office in Hong Kong, was utilised during the year for the acquisition of fixed assets including moulds, plant and machinery.

Since the listing of the Company's shares, there have been tremendous changes in the property market and economic situation of Hong Kong. Given these factors, during the year, the Directors have reassessed the interests of the Group to continue the original plan to acquire a new office in Hong Kong, and decided to apply the above HK$10 million to acquire fixed assets including moulds, plant and machinery. The Directors believed that this change in the use of proceeds from the IPO allowed the Group with greater flexibility to better use its available financial resources and was in the interests of the Group.

**Tong Yiu Lun**
*Chairman*

Hong Kong
25 July 2002